

Legislative Notice

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H.R. 1664 — Emergency Steel Loan Guarantee and Emergency Oil and Gas Guaranteed Loan Program Act of 1999

Calendar No. 121

Reported May 25, 1999 from the Committee on Appropriations, with amendments and an amendment to the title. No report was filed.

NOTEWORTHY

- The Majority Leader filed cloture on the motion to proceed to H.R. 1664, the Emergency Steel Loan Guarantee and Emergency Oil and Gas Guaranteed Loan Act of 1999, on Thursday, June 10. A cloture vote is expected to occur Tuesday if cloture on the motion to proceed to S. 557, the Social Security lockbox bill, is not invoked.
- H.R. 1664, as reported by the Senate Appropriations Committee, authorizes \$1 billion in federal loan guarantee authority for steel and iron ore companies and \$500 million in authority for oil and gas companies. The bill appropriates \$270 million for the cost of the guarantees and also provides the same amount in rescissions from the administrative and travel accounts of the "Contractual Services and Supplies" in non-defense programs to offset the costs.
- These provisions were originally included (but did not undergo a separate vote) by the Senate in S. 544, the emergency disaster and foreign aid supplemental bill, which passed the Senate on March 23, 1999, and later became H.R. 1141 [P.L. 106-31]. During conference on H.R. 1141, the loan guarantee provisions were stripped from the bill, which is why they are now being considered as a free-standing bill.
- The new vehicle for this language is H.R. 1664. As that bill passed the House on May 6, it included supplemental appropriations for Kosovo. The Senate Appropriations Committee replaced the text of the House bill with the emergency loans language from S. 544. If passed by the Senate, H.R. 1664 would proceed to conference with the House.

BACKGROUND

In an effort to help clarify the debate, the following are some of the arguments made by the proponents and opponents of the two loan guarantee programs.

Proponents: Proponents generally argue that steel mills and small oil and gas producers are battling record levels of imports that are penetrating the market at rock bottom prices, resulting in thousands of workers losing their jobs. They argue these are vital sectors of the U.S. economy and vital components of our national security, and so should be shored up with federal loan guarantees.

With respect to the steel industry, the Explanatory Statement of the Recommendations of the Senate Appropriations Committee on H.R. 1664 found that more than 41 million tons of cheap imported steel flooded the United States in 1998 — an amount which represents an increase of 83 percent over the 23-million-ton average for the previous eight years. The Statement found that a number of U.S. steel plants have closed or declared bankruptcy since September of 1998, and a number of others are not far behind.

With respect to the oil and gas industry, the Explanatory Statement found that oversupply of oil and gas has resulted in the loss of 42,500 jobs, and that bankruptcies have fueled the closure of an estimated 136,000 wells. The most vulnerable sector of the industry are the marginal wells that produce less than 15 barrels of oil and gas a day. These wells are the most sensitive to a drop in prices. The Statement found that 20 percent of the total U.S. marginal-well production has been jeopardized because of the bankruptcies.

Opponents: Opponents generally argue that the loan programs are bad public policy and that the federal government should not get into the business of authorizing ad-hoc, taxpayer-subsidized bailouts for individual industries. In addition, they argue that the emergency loan programs were not considered by the appropriate authorizing committee prior to the time they were added to the supplemental spending bill and that they were added without debate and without a vote. Finally, they argue that the companies interested in a loan are not guaranteed to get one because the loans must be approved by a board comprised of three Clinton Cabinet secretaries who have the sole and final approval over the terms and conditions of the loan.

With respect to the steel loan program, the opponents also point to a 1994 memo prepared by the Congressional Research Service about a 1978 steel guarantee program that had \$550 million in guarantee authority. The memo says in part, "although only five loans were obligated to steel companies, 77 percent of the dollar value of the guarantees were defaulted. Steel companies received 28.6 percent of the dollar value of total Economic Development Administration guaranteed loan obligations, but accounted for 49.3 percent of total writeoffs." Also from the memo: "Although the sample size is very small, hindsight suggests that as a group, steel loans represented a high level of risk, which may account for a lack of interest in the private markets to take on these debt obligations without a guarantee."

BILL PROVISIONS

Sec. 101. Emergency Steel Loan Guarantee Program.

- The bill establishes an **Emergency Steel Guarantee Loan Program**, to be administered by a Loan Guarantee Board, to provide loan guarantees to qualified steel companies. *Sec. 101(d).*
- The **Loan Guarantee Board** is to be comprised of the Secretary of the Commerce, who will serve as Chairman of the Board, the Secretary of Labor, and the Secretary of the Treasury. *Sec. 101(e).* The Board has the authority to determine the specific requirements in awarding the loan guarantees, including the percentage of the guarantee, appropriate collateral, as well as loan amounts and interest rates. *Statement of Explanation.*
- A “**qualified steel company**” is defined as any incorporated company that is (a) “engaged in the production and manufacture of a product defined by the American Iron and Steel Institute as a basic steel mill product”; and (b) “has experienced layoffs, production losses, or financial losses since the beginning of the steel import crisis, in January 1998 or that operates substantial assets of a company that meets those qualifications.” *Sec. 101(c)(3).*
- The **Loan Program** provides a **\$1 billion federal guarantee** for loans provided to qualified steel companies, with up to \$30 million provided to iron ore companies, by private banking and investment institutions. No individual loan guarantee may exceed \$250 million, or be less than \$ 25 million (subject to waiver). *Sec. 101(f), (m).*
- A loan may be issued if the Board determines that (1) credit is otherwise not available to a company under reasonable terms to meet its financing needs; (2) the prospective earning power of the company provides reasonable assurance that the loan will be repaid; (3) the loan bears interest at a “reasonable” rate (as determined by the Board); (4) the company has agreed to an audit by the General Accounting Office prior to the loan being issued and after the loan is provided; and (5) with respect to a purchaser of substantial assets of a steel company, the steel company shows that it is unable to reorganize itself. *Sec. 101(g).*
- All loans must be repaid in full by December 31, 2005. *Sec. 101(h).*
- A qualified company receiving a guarantee is required to pay a fee to the Department of Treasury of up to .5 percent of the outstanding principal balance of the loan to offset administrative costs. *Sec. 101(h).*
- The bill appropriates \$140 million in emergency funds for the costs of the loans guaranteed under the Loan Program. *Sec. 101(f)(6).* It also provides \$5 million to the Department of Commerce to administer the program. *Sec. 101(j).*

- To offset the costs of the guarantees, **the bill rescinds \$145 million in nondefense administrative and travel expenses** on a pro rata basis from funds available to every federal agency, department and office in the Executive Branch, including the Office of the President. *Sec. 102.*

Sec. 201. Emergency Oil and Gas Guaranteed Loan Program.

- Very similar to the steel loan guarantee program, the **oil and gas guaranteed loan program** is established to provide federal loan guarantees to qualified oil and gas companies. *Sec. 201(d).*
- The **Loan Guarantee Board** is comprised of the same Board members as for steel. *Sec. 201(d)(2).* Like the Steel program, the Board would have the authority to determine the specific requirements in awarding the loan guarantees, including the percentage of the guarantee, appropriate collateral, as well as loan amounts and interest rates. *Statement of Explanation.*
- A **qualified oil and gas company** is any incorporated company that is (a) “an independent oil and gas company” (as defined in section 57(a)(2)(B)(i) of the Internal Revenue Code of 1986); or (b) “a small business concern as defined in Section 3 of the Small Business Act that is an oil field service company whose main business is providing tools, products, personnel, and technical solutions on a contractual basis to exploration and production operators that drill, complete wells, and produce, transport, refine, and sell hydrocarbons and their byproducts as the main commercial business of the concern or company” and (c) “has experienced layoffs, production losses, or financial losses since the beginning of the oil import crisis, after January 1, 1997.” *Sec. 201(c)(3).*
- The **Loan Program is authorized to federally guarantee up to \$500 million in loans** provided to qualified oil and gas companies by private banking and investment institutions. An individual guarantee to a single company may not exceed \$10 million or be less than \$250,000. *Sec. 201(e).*
- The requirements for issuance of a loan guarantee are the same as the requirements for a steel loan guarantee. *Sec. 201(f).*
- **All loans must be repaid by December 31, 2010.** *Sec. 201(g)(1).*
- Like the steel loan program, a **qualified oil and gas company receiving a loan must pay the Department of Treasury a fee of up to .5 percent of the outstanding principal balance** of the loan to offset administrative costs. *Sec. 201(g)(3).*
- The bill **appropriates \$122.5 million in emergency funds for the costs of the guarantees** and \$2.5 million to the Department of Commerce to administer the program. *Sec. 201(e)(6), (i).*
- Similar to the steel provision, **the bill rescinds \$125 million in nondefense federal administrative and travel expenses** to offset the costs of the guarantees. *Sec. 202.*

ADMINISTRATION POSITION

No Administration position was available at the time of publication.

COST

According to a Dear Colleague sent out by Senators Domenici and Byrd in support of the loan programs, the Congressional Budget Office (CBO) and the Office of Management and Budget have calculated the budget authority cost of the programs to be \$270 million. In a letter to Senator Byrd, CBO indicated that it estimated that the guarantees to steel and iron ore companies would cost an average 16.5 percent of the total amount guaranteed, and that the guarantees to oil and gas companies would cost an average 24.5 percent. Under credit reform procedures, the subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee.

POSSIBLE AMENDMENTS

No amendments have been proposed at this time.

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